



**PRC Law Newsflash  
27 December 2013**

**People's Bank of China Releases Opinions on Leveraging the Role of Finance to Support the Development of the China (Shanghai) Pilot Free Trade Zone**

On 2 December 2013, the People's Bank of China (**PBOC**) issued the *Opinions on Leveraging the Role of Finance to Support the Development of the China (Shanghai) Pilot Free Trade Zone (Opinions)*. The Opinions set out guidelines for the financial reforms in support of the Shanghai Free Trade Zone (**FTZ**). Pursuant to the principles of deepening the financial reform and facilitating cross-border investment and trade, the Opinions set forth five major supportive measures, discussed below.

**1. Establishment of Free Trade Account**

FTZ residents (individuals and entities) (**FTZ Resident**) will be allowed to open a new type of joint foreign currency / RMB free trade bank account (**Resident FTA**) at any bank in Shanghai (not just in the FTZ), while non-PRC residents (**Non-resident**) will be allowed to open a non-resident free trade account (**Non-resident FTA**) with an FTZ bank.

Funds can be freely transferred between a Resident FTA and other accounts (including overseas accounts, domestic non-PRC resident accounts opened outside the FTZ, Non-resident FTAs and other Resident FTAs). Funds may be transferred between a non-financial entity's Resident FTA and its settlement accounts in other banks within China for purposes of current account transactions, loan repayment and other qualified transactions.

Eventually, RMB and foreign currencies in both Resident FTAs and Non-resident FTAs will be freely convertible.

**2. Relaxing Restrictions on Cross-border Financing and Investment**

FTZ Resident companies will be able to make direct outbound investments without obtaining pre-approval from the State Administration of Foreign Exchange and directly convert RMB into foreign currencies for remittance out of China.

Foreign companies with subsidiaries in the FTZ may issue RMB-denominated bonds in onshore capital markets in accordance with applicable national rules.

### **3. Promoting RMB Cross-border Use**

Commercial banks in Shanghai will be able to directly process cross-border RMB settlement related to current accounts and direct investment transactions, unless the bank customer is on the "export trading RMB settlement entities watch list".

FTZ Resident financial institutions and corporations will be allowed to borrow RMB from overseas lenders, provided that the borrowed funds are not used to invest in securities or derivatives or for the extension of entrustment loans. The Opinions do not elaborate on the notion of "overseas lenders", but the Shenzhen Qianhai Free Trade Zone limits the term to commercial banks which conduct RMB business in Hong Kong.

Financial institutions in Shanghai will be able to cooperate with qualified FTZ Resident online payment service providers to provide RMB settlement services for cross-border e-commerce.

### **4. Propelling Market-oriented Interest Rate Reform**

In an effort to push ahead with interest rate liberalization, the PBOC will, at some point, lift the ceiling on interest rates for small-denomination deposits in foreign currencies under general accounts. It will also pilot the issuance of large-denomination negotiable certificates of deposit by qualified financial institutions in the FTZ.

According to PBOC deputy governor Hu Xiaolian, the issuance of certificates of deposit will be the first step of interest rate reforms, which will be followed by the replacement of the PBOC benchmark rate with a market-based benchmark, and finally the removal of the cap on deposit rates.

### **5. Deepening Foreign Exchange Reform**

The Opinions suggest reforms on foreign exchange management will be enhanced by simplifying the foreign exchange registration formalities for inbound foreign direct investment while strengthening post-transaction supervision.

To support companies engaged in offshore financial leasing, the PBOC will replace the approval system with a registration management system. Subject to approval, FTZ Resident financial institutions (excluding banks) engaged in financial leasing and Chinese-funded financial leasing companies will be able to receive lease payments in foreign currencies for their domestic financial leasing business.

## Conclusion

The incentives set out in the Opinions aim to attract more multinationals to invest in the FTZ and to put Shanghai on a path to being a top international financial center.

However, the Opinions do not have legal force or effect and only serve as guidelines. Therefore, a true evaluation of the opportunities offered by the FTZ must await the promulgation of detailed operating rules.

At this moment, it is not clear if or when other regulatory bodies, such as the MOFCOM and the NDRC, will issue related regulations of their own.

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Uploaded on 27.12.2013

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